

CONTRACT/AGREEMENT

BETWEEN THE

MINISTRY OF DEFENSE OF THE REPUBLIC OF ITALY

AS REPRESENTED BY

THE GENERAL DIRECTORATE OF AIR ARMAMENTS

AND

THE DEPARTMENT OF DEFENSE OF THE UNITED STATES OF AMERICA

AS REPRESENTED BY

THE DEFENSE ENERGY SUPPORT CENTER

CONCERNING THE USE OF

THE NATO NORTHERN ITALIAN PIPELINE SYSTEM (NIPS)

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PREAMBLE

The Ministry of Defense of the Republic of Italy, represented by the General Directorate of Air Armaments (ARMAEREO), and the Department of Defense of the United States of America (U.S. DoD), represented by the Defense Energy Support Center (DESC), hereinafter referred to as the "Party" or "Parties,"

Recognizing:

- the "North Atlantic Treaty," signed in Washington, D.C., on April 4, 1949;
- the "Agreement Regarding the Status of Forces of the Parties to the North Atlantic Treaty," signed in London on June 19, 1951;
- the "Memorandum of Understanding Between the Ministry of Defense of the Republic of Italy and the Department of Defense of the United States of America Concerning the Use of Installations/Infrastructures by U.S. Forces Italy," which entered into force February 2, 1995;
- the Acquisition and Cross-Servicing Agreement (US-IT-02) Between the Department of Defense of the United States of America and the Ministry of Defense of the Republic of Italy, which entered into force April 15, 2001;

And considering that:

- the Ministry of Defense of the Republic of Italy possesses a system of pipelines for the distribution of petroleum products to the military bases of Northern Italy;
- the Department of Defense of the United States of America is interested in utilizing such a system for the refueling of its own equipment that may be located on the Italian territory;
- on March 28, 2000, the Ministry of Defense of the Republic of Italy ratified the Contract/Agreement Implementing Arrangement (IT/ARMAEREO-US/DESC-99-0101) between the Ministry of Defense of the Republic of Italy as Represented by the General Directorate of Aeronautic Armaments and the United States Department of Defense as Represented by the Defense Energy Support Center for the Operation and Maintenance of the Northern Italian Pipeline System, which was signed September 24, 1999, as modified and amended;
- it is necessary to update the terms of the above-cited Contract/Agreement Implementing Arrangement in order to conform it to current conditions,

Have agreed as follows:

Article 1. PURPOSE, SCOPE, AND APPLICABILITY

The purpose of this Agreement is to establish the terms and procedures for allowing Authorized Entities of the U.S. DoD operating from Italy to refuel with petroleum products utilizing the pipeline system of Northern Italy that is the property of the Ministry of Defense of the Republic

of Italy, hereinafter identified also as "NIPS," as defined in the "NATO Charter for the Organization of the Pipeline System (NPS) and Similar Fuel Infrastructures," of July 7, 1995.

This Agreement is limited to the supply of aviation fuel through the NIPS to U.S. forces operating in Italy.

Article 2. RELATIONSHIP OF THE PARTIES

- 2.1. The Ministry of Defense of the Republic of Italy, hereinafter identified also as "A.D.," is the owner of the NIPS pipeline system;
- 2.2. The General Directorate of Air Armaments, hereinafter identified also as "DGAA," with headquarters in Via dell'Università 4, 00185 Rome, Italy, is the entity responsible for the procurement and supply of petroleum products as well as for signing and managing this Agreement in the name and on behalf of the A.D.;
- 2.3. The Logistics Command of the Italian Military Air Force, hereinafter identified also as "AEROLOG," with headquarters in Via dell'Università 4, 00185 Rome, Italy, is the entity responsible for logistics for the Italian Military Air Force;
- 2.4. The POL Network Command, hereinafter identified also as "AEROPOL," with headquarters in Via Cremonese 35, 43100 Parma, Italy, is the entity responsible for the activities relative to the management of the petroleum products that are used by the NIPS;
- 2.5. The Department of Defense of the United States of America, hereinafter identified also as "U.S. DoD," with headquarters in Arlington, Virginia, is the entity responsible for the operations of the U.S. forces and for the logistics support needed;
- 2.6. The Defense Energy Support Center, hereinafter identified also as "DESC," with headquarters in Fort Belvoir, Virginia, is the entity responsible for the procurement of petroleum products needed by the U.S. forces, as well as for negotiating and signing this Agreement on behalf of and for the U.S. DoD;
- 2.7. The Defense Energy Support Center Europe, hereinafter identified also as "DESC-EU," with headquarters in Wiesbaden, Germany, is the entity responsible for managing this Agreement on behalf of and for the DESC;
- 2.8. The Defense Energy Support Center Mediterranean, hereinafter identified also as "DESC-EU-ME," with headquarters in Livorno, Italy, is the entity responsible for all activities relative to the management of petroleum products introduced into the NIPS.

Article 3. RESPONSIBILITIES

Each Party shall designate a Program Manager responsible for the Agreement. The status of the activities pertaining to this Agreement (i.e.: consignment, supplies, financial situation) will be monitored by the Program Manager and periodically reviewed in the course of Program Management Review (PMR) meetings that may be attended also by the personnel of the Agencies involved or by other experts, as dictated by necessity or suitability. The frequency of said meetings will be at least semiannual. Any special requests may require the calling of ad-hoc meetings. The Program manager's rank and delegated authority will be suitable to accomplish the associated duties.

- 3.1. DESC, providing that no circumstances arise beyond its control and authority, shall:
- 3.1.1. Deliver product into the NIPS, which is intended for use by U.S. forces operating at military installations in Italy.
 - 3.1.2. Comply with ARMAEREO requirements for introduction of DESC product into the system by ocean tanker or by pipeline as specified in Annex B.
 - 3.1.3. Maintain a pipeline fill quantity of 5,000 cubic meters/31,465 barrels of Jet A-1 fuel product in the system as specified in Annex A.
 - 3.1.4. Ensure a stock reserve of DESC-owned fuel in the NIPS that is sufficient to cover the expenses the A.D. will incur to provide the necessary services under this Agreement.
 - 3.1.5. Pay ARMAEREO, either in cash and/or in fuel, on a proportional, fair, and reasonable basis for all service costs pertaining to the operation of the NIPS as specified in Annex E and Annex F of this Agreement.
 - 3.1.6. Comply with the AEROLOG rules with respect to possible inspections of the NIPS installations and for possible quality controls of the product.
 - 3.1.7. Request access to NIPS installations in accordance with applicable A.D. procedures in order to participate in a joint (DESC/AEROPOL) semi-annual physical inventory of all petroleum products in the system and to review corresponding inventory management records.
 - 3.1.8. Provide additives for injection into DESC product, as mutually agreed.
 - 3.1.9. Coordinate as necessary with ARMAEREO on all NIPS fuel operational requirements, communicating in advance any possible drawdown in excess of the monthly quantities projected in the approved PMR plan. By September 30th of each year, provide DGAA with an estimate of the quantity of petroleum product to be managed through the NIPS in the following year.
 - 3.1.10. Not be subject to environmental liability for ingress, storage, transportation, egress, or withdrawal of DESC-owned fuel in and from the NIPS.
 - 3.1.11. Provide ARMAEREO with a formal response to the annual funding order (FO) by December 1st of each year covering the full upcoming Italian financial year.
 - 3.1.12. Cooperate in locating the documentation needed to benefit from exemption or application of the most favorable regime with respect to taxes, levies, duties, and any additional charges allowed by the laws and regulations in force.

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- 3.2. ARMAEREO, providing that no circumstances arise beyond its control and authority, shall:
- 3.2.1. Operate and maintain the NIPS according to NATO Standardization Agreements (STANAGs), Italian law, and this Agreement.
 - 3.2.2. Provide DESC with the same level of fuel management support that is provided to the Italian Armed Forces.
 - 3.2.3. Receive, store, and transport DESC product within the system to appropriate destinations; conduct inventory management; maintain quality control; and secure product within the system in accordance with Annexes C and D.
 - 3.2.4. Coordinate with and grant DESC officials or their designated representatives access to NIPS installations for the purpose of inventory data collection, quality surveillance, and other matters, in accordance with applicable A.D. procedures.
 - 3.2.5. Provide DESC with an annual funding order (FO) by October of each year that applies to the upcoming budget cycle (January-December). This FO shall list all projected activities and associated indicative costs for the upcoming year, providing a general description of each funding requirement.
 - 3.2.6. Provide DESC with quarterly service costs for DESC use of the NIPS. Invoices shall be provided to DESC after the end of the quarter in which services were provided. This cost may be converted to an equivalent value of aviation fuel for payment in accordance with Annex F unless otherwise agreed.
 - 3.2.7. Guarantee, to the greatest possible extent and as agreed between the Parties, the continuation of the performance of services under this Agreement in times of alerts, crisis, and periods of armed conflict and war.
 - 3.2.8. Notify DESC without delay when support is interrupted and when operations shall recommence.
 - 3.2.9. Perform a semiannual, physical inventory of petroleum products and review related management records, with the participation of authorized DESC personnel.
 - 3.2.10. Provide DESC with adequate alternative service (e.g., tank truck, by-pass with WARDAM, etc.) to guarantee the system's operational requirements in the event that the NIPS should become temporarily unusable due to an emergency or breakdown.
 - 3.2.11. Charge DESC for services under this Agreement in accordance with the principle of economic neutrality and at rates not to exceed those charged Italian Armed Forces for identical services, less taxes in accordance with Paragraph 6.2. of this agreement.
 - 3.2.12. Proceed, as agreed, with the injection of anti-icing additive NATO code S1745 provided by the DESC into the product supplied by the latter.

- 3.2.13. Ensure the prescribed concentration of additives in the fuel present in the NIPS other than the anti-ice additive (NATO code S1745). It is understood that additives other than S1745 shall be provided by A.D. and proportionally cost shared.
- 3.2.14. Not hold DESC responsible for any environmental issues and/or associated costs for the ingress/receipt, storage, transportation, egress/issue, or withdrawal of petroleum products in and from the NIPS.
- 3.2.15. Agree to return to or credit the DESC under the banking system arrangement for the balance of all DESC-owned product in the NIPS at the time of Agreement termination. The return or credit will be quantified based on a final joint physical inventory review.

Article 4. OPERATIONAL MATTERS

- 4.1. System description: The NIPS system consists of a marine terminal, pipelines, depots, storage tanks, and related pumps, valves, filters of various types, measurement devices, injectors, auxiliary structures, and various interconnecting equipment.
- 4.2. Banking System: The system shall operate under a banking system and common property principle, wherein DESC and Italian products are combined/mixed within the system. Upon acceptance into the NIPS, the product shall not be identified as the property of, or be dedicated to, the exclusive use of either system user. Fuel deposited into the NIPS creates an inventory credit that is available for immediate withdrawal. Total credit balance equals the initial balance plus (+) receipts minus (-) issues. A.D. shall maintain inventory accounts for the user, including recording the receipts, issues, and running balance of each user's inventory. The total of the users' balances equals the total product inventory in the system, and provides a crosscheck to the user's respective transactions.
- 4.3. Storage allocation: For the purposes of this Agreement, the DESC storage capacity allocation and pipeline fill allocation are specified in Annex A.
- 4.4. Personnel Access: DESC shall provide AEROLOG with a list of individuals authorized to enter NIPS facilities to conduct visits, coordinate operations, and give instructions on, respectively, quality surveillance, laboratory testing, vessel loading and unloading, pipeline deliveries by commercial suppliers, inventory, NATO inspection, etc. AEROLOG shall grant access to authorized individuals upon receiving 72 hours advance notification.
- 4.5. Pipeline System Maintenance: A.D. shall ensure the operational integrity of the NIPS by performing the maintenance and repairs necessary to preserve the delivery capabilities required by this Agreement and/or based upon the Italian, European Union, and NATO directives.

4.5.1. Notification.

- 4.5.1.1. Routine maintenance that shall adversely affect the system's operations shall be reported to DESC-EU-ME as far in advance as practicable (at least 30 days) prior to beginning the maintenance.
- 4.5.1.2. Emergency repairs rendering a portion of the system inoperable shall be reported to the DESC as soon as possible.

4.5.2. Maintenance.

- 4.5.2.1. Routine maintenance shall be conducted as required to preserve the operational integrity of the system.
 - 4.5.2.2. Emergency maintenance is that which is unscheduled and which could interrupt fuel movements through the pipeline system. ARMAEREO shall make emergency repairs to the system that are not foreseen in the PMR. It is understood that responsibility for these costs to cover unscheduled repairs are included in this Agreement.
- 4.6 In the event that the DESC fuel inventory in the NIPS is not sufficient to cover service costs at the time an invoice is due payment, ARMAEREO reserves the right to suspend the service provided for in this Agreement. This provision is not effective if the DESC fuel inventory is temporarily insufficient due to resupply delays caused by no fault of DESC and/or if the insufficient fuel quantity is due to satisfaction of other Italian MoD requirements.

Article 5. FINANCIAL AND ECONOMIC MATTERS

- 5.1. The basis on which DESC costs are determined is specified in Annex E and is in accordance with the principle of economic neutrality.
- 5.2. ARMAEREO shall provide DESC with an annual funding order as specified in subparagraph 3.2.5. above.
- 5.3. Payment by the DESC for services provided by A.D. shall be executed according to Annexes E and F.
- 5.4. ARMAEREO will notify DESC as soon as practicable, through the PMR process or otherwise, of unplanned projects that have a significant budget impact.

Article 6. GENERAL PROVISIONS

- 6.1. All activities of the Parties under this Agreement shall be carried out in accordance with their national laws. The obligations of the Parties shall be subject to the availability of funds for such purposes.
- 6.2. Customs, Taxes, and Excises in connection with activities carried out under this Agreement: The Parties shall not charge or pay any taxes or duties under this Agreement. A.D. shall endeavor to obtain the exemption on the most favorable conditions based on existing Government-to-Government agreements and based on the documentation provided by DESC.
- 6.3. Amendments: Amendments to this Agreement may be proposed by either Party at any time and shall, upon acceptance by the Parties by means of a jointly signed amendment, become a permanent part of this Agreement. This Agreement may be amended only by written agreement between the Parties.
- 6.4. Termination: This Agreement may be terminated at any time upon the written consent of the Parties. Either Party may unilaterally terminate the Agreement by giving the other Party ninety (90) days written notification of its intent to terminate. The Parties, in consultation, shall take adequate actions to limit the negative impact of termination on either Party.
- 6.5. Disputes: Any disputes regarding the interpretation of this Agreement or transactions executed hereunder shall be resolved through consultation between the Parties and shall not be referred to any national or international tribunals or third party for settlement.
- 6.6. Supersession: This Agreement supersedes the Contract/Agreement Implementing Arrangement (IT/ARMAEREO-US/DESC-99-0101) between the Ministry of Defense of the Republic of Italy as Represented by the General Directorate of Aeronautic Armaments and the United States Department of Defense as Represented by the Defense Energy Support Center for the Operation and Maintenance of the Northern Italian Pipeline System, which was signed September 24, 1999, as modified and amended.
- 6.7. Effective Date and Duration: This Agreement shall enter into force upon the date of the last signature by both Parties and shall remain in force for five (5)-years. With the Parties' mutual consent in writing, this Agreement may be renewed for an additional five (5) year period.
- 6.8. Liability and Immunity from Legal Process: The Parties waive all claims against each other with respect to any damages or loss, except when such damage or loss results from a reckless act or omission, or willful misconduct of the other Party, except as noted otherwise in this Agreement. The Parties shall proportionally share any reimbursement obtained by each Party for acts of negligence affecting the system.

6.9. Officials not to Benefit: The Parties will comply with each other's national laws relating to the prohibition against a member of its legislative branch from benefiting from this Agreement.

Article 7. AUTHENTICATION

In witness thereof, the undersigned being duly authorized by their Governments, have signed this Agreement. This Agreement shall be concluded in both the Italian and English languages, with each text being equally authentic.

This Agreement consists of seven (7) Articles and six (6) Annexes.

**FOR THE
GOVERNMENT OF THE
UNITED STATES OF AMERICA
REPRESENTED BY THE
U.S. DEPARTMENT OF DEFENSE**


KIM J HUNTLEY
Director
Defense Energy Support Center

Date: SEP 19 2008

Place: Fort Belvoir, Virginia, USA

**FOR THE
GOVERNMENT OF THE
REPUBLIC OF ITALY
REPRESENTED BY THE
MINISTRY OF DEFENSE**


Brig. Gen G.A. COZOTTI Ing. Salvatore
Chief 3° Department
General Directorate of Air Armaments

Date: 29 SET. 2008

Place: Rome, Italy

ANNEX A

PRODUCTS, STORAGE CAPACITY, AND PIPELINE DISTANCES

- A.1. DESC will use the NIPS to store and transport Jet Fuel, Grade Jet A-1, NATO code F35.
- A.2. Net Storage Capacity (useful volume) on the NIPS equals 141,000 cubic meters or approximately 887,313 U.S. barrels (excludes shore tanks equalling 40,000 cubic meters or approximately 251,720 U.S. barrels).
- A.3. DESC Net Storage Allocation equals 45,500 cubic meters or approximately 286,332 U.S. barrels equalling 32.3% of useful volume.
- A.4. Pipeline Fill - Share of DESC Allocation: DESC agrees to contribute a quantity of fuel to the pipeline that cannot be withdrawn on demand, but is essential to ensuring the system's operation (for example, to push product throughout the system itself). On the basis of its own percentage of usable storage, the DESC allocation of pipeline fill equals 5,000 cubic meters (approximately 31,465 U.S. barrels).
- A.4.1. A.D. acknowledges that DESC has already provided the DESC pipeline fill allocation equalling 5,000 cubic meters (approximately 31,465 U.S. barrels) and, upon termination of this Agreement, A.D. shall return DESC's pipeline fill allocation within 90 days of this Agreement's termination date.
- A.5. Total storage and pipeline fill for DESC equals 50,500 cubic meters or approximately 317,797 U.S. barrels (32.3% of total storage capacity).
- A.6. The following table lists the sites at which it is possible to withdraw the product transported through the NIPS and the respective distances in kilometres from the shipping points. The pipeline distances shall be used to compute transportation charges as provided in Annex E.

NOTE: No transportation/throughput charges shall be levied to the DESC for replacement-in-kind (RIK) product.

SHIPMENT POINT	RECEIPT POINT	DISTANCE (Kilometers)
La Spezia	Val Magra	10
	Collecchio	100
	Ghedi	180
	Ca'di David	240
	Capodimonte	340
	Roveredo	420
	Rivolto	440
	Casalecchio	190
	S. Giorgio di Cesena	290

Fiorenzuola d'Arda	Collecchio	34
	Ghedi	114
	Ca' di David	174
	Capodimonte	274
	Roveredo	354
	Rivolto	374
	Casalecchio	124
	S. Giorgio di Cesena	224

ANNEX B

PRODUCT RECEIPT AND ISSUE GUIDELINES

Ingress of fuel into the NIPS system on the part of DESC shall take place both at the Marine Terminal of La Spezia and at the Land Terminal of Fiorenzuola d'Arda.

Unless otherwise agreed, the ingress and egress of petroleum products shall occur as outlined below:

B.1. Ingress by ocean tanker at the Marine Terminal of La Spezia.

B.1.1. At a minimum, DESC shall be guaranteed a period each month for tanker deliveries at La Spezia. DESC shall provide AEROPOL a tanker delivery slate that will identify DESC's intent to ingress fuel into the NIPS system as contemplated in the plans approved under the PMR and shall propose, with at least 45 days advance notice, a period of ten (10) days in which the tanker may carry out its delivery. AEROPOL shall notify DESC to confirm mooring/docking availability not later than 5 days after receipt of DESC's monthly tanker slate. In the event that the upcoming mooring/docking of the tanker ship in the period projected is not possible, AEROPOL shall propose alternative dates. The ship will be informed of the exact point of docking that must be within reach in a maximum of six hours from Notification of Readiness (NOR) given by the commander of the ship to the manager of the depot or other similar staff person. DESC will confirm to AEROPOL the volume of fuel to be transferred to the coastline depots of La Spezia not later than 72 hours before the arrival of the ship. The confirmation notice must also include the cargo number of the load, the name of the ship, and, if available, its tonnage, length, and draft level.

B1.2. The cargo hose and the adapter used for loading and unloading the fuel will be supplied by A.D. The connecting and disconnecting operations of the cargo hose will be carried out under the supervision of A.D. The unloading operations are subject to the procedures of the port authorities and shall be carried out without interruption with consecutive shifts, subject to compliance with provisions of the Italian contract with regard to overtime costs. Once offshore unloading operations have begun, they shall not be interrupted except in case of force majeure.

B.1.3. Before discharge, each compartment of the vessel shall be sampled by AEROPOL. Samples shall consist of 10 liters each and be representative of the entire cargo. The samples will then be sent to the A.M. Technical Control Laboratory in Parma where they will be subjected to a Type A test, as required by the NATO STANAG 3149. The Type A test, the comparative analysis of the load, and the verification of the quality of the product must be completed before the unloading operations can begin. AEROPOL, in accordance with the requirements of the NATO STANAG 3149, has the option of completing the "Level A" test after the unloading operations have begun. In that case, another sample will be taken from the ship in case the first one does not correspond to the required specifications. AEROPOL reserves the right to carry out all the checks considered

appropriate to ensure the quality of the product and to prevent any potential pollution from occurring.

B.1.4. AEROPOL shall ensure that:

B.1.4.1 The product in the coastline depots and in the pipelines meets the specifications before ingressing any other product;

B.1.4.2. The coastline pipes are properly segregated/insulated in order to avoid contamination of the product in the shore tank(s) and ship;

B.1.4.3. The coastline pipes are properly connected before opening or closing the measuring devices of the coastline tank or tanks. The opening and closing of the measuring devices can be of the ullage (measuring the voids inside the tank following filling operations) or innage type (measuring the liquid in the tank at the end of filling operations), after checking the water temperature and level.

B.1.5. DESC may be present at the above-mentioned checks with its own personnel, provided a request is made in advance in accordance with applicable guidelines.

B.1.6. The quality assurance representative (QAR) shall deliver a copy of the loading documents to AEROPOL. At the end of unloading operations, the QAR shall provide the depot manager a copy of the DESC discharge documents and Form DD 250-1.

B.2. Receipt into the NIPS by pipeline from commercial storage of Fiorenzuola.

B.2.1. DESC shall give timely advance notice to DGAA whenever DESC shall ingress fuel into the NIPS from commercial contract sources.

B.2.2. AEROLOG shall coordinate the ingress/deliveries to the system through AEROPOL in order to ensure that the DESC fuel ingresses into the NIPS on the projected date.

B.2.3. The DESC staff assigned to perform quality control (QC) may be present at the sampling and testing of the product that ingresses into the NIPS from private suppliers by following the applicable access procedures. The AEROPOL will accept delivery of the samples and perform the Type A test in the A.M. Technical Control Laboratory of Parma. A copy of the test results will be sent to ARMAEREO.

B.2.4. The quantity of product that ingresses into the NIPS shall be determined by a calibrated temperature-compensating meter placed between the commercial facility and the NIPS connection.

B.2.5. DGAA reserves the right to have its own personnel present during the opening of the valves and the reading of the measurements before and after delivery takes place. DESC representatives may also be present by submitting a request in advance.

B.2.6. Upon completion of each pipeline shipment, a copy of the required supporting documents and Form DD 250, if applicable, accurately filled out and signed, will be kept in the files at AEROPOL.

B.3. Delivery of the product to DESC.

B.3.1. AEROPOL shall operate the NIPS in order to deliver maximum capability of the pipeline 7 hours per day/ 5 days per week (Monday through Friday). During special and/or emergency circumstances, AEROPOL, after Italian MoD authorization, shall operate the NIPS on a 24 hours per day, 7 days per week schedule.

B.3.2. The DESC-EU-ME shall coordinate a monthly schedule with the AEROPOL for deliveries to Aviano Air Base and tank trucks loading/deliveries for Vicenza (Ederle Barracks) and Camp Darby.

B.3.3. AEROPOL shall transport fuel to Aviano Air Base as requested in the weekly delivery requirement notification. Notification format and data requirements shall be as mutually agreed between the parties. AEROPOL shall inject the necessary product additives.

B.3.4. In the event that DESC intends to use tank trucks to transport fuel from Capodimonte to Vicenza and from Valmagra to Camp Darby, DESC shall provide notification to AEROPOL with as much advance notice possible.

B.3.5. Calculation of the quantity of fuel egressed from the NIPS shall be determined by use of the following methods:

B.3.5.1. Egressed by pipeline: receiving tank gauge or calibrated meter with correction to 15 degrees Celsius.

B.3.5.2. Egressed by tank truck: Metric Pole/Gauging Stick/meter and subsequent conversion of the amount to 15 degrees Celsius or calculation based on the density and weight determined by weight calibration.

ANNEX C

PRODUCT QUALITY MANAGEMENT

- C.1. Fuel that is ingressed/received, transported, stored, egressed/issued, and withdrawn shall meet one of the national specifications listed in the NATO STANAG 1135 latest Interchangeability Chart, Annex C, or NATO STANAG 3747. Fuel that does NOT meet the specification requirements, with the exceptions listed in NATO STANAGs 1110 and 7036, shall NOT be accepted or added into the system.
- C.2. Sampling and testing shall be performed according to NATO STANAG 3149.
- C.3. Fuel sample analysis testing methods shall comply with NATO STANAG 3747 or the Italian regulatory equivalent.
- C.4. Fuel analysis testing equipment shall be calibrated in accordance with NATO STANAG 3747, at a minimum, or equivalent rules in force in the A.D. that will be made available to DESC personnel.
- C.5. The test reports prepared by AEROPOL shall be maintained for two years; copies of the test reports may be sent to DESC upon request. AEROPOL shall provide DESC a copy of the test reports for DESC product tested at the time of receipt.
- C.6. AEROPOL shall deliver fuel samples to the Aviano Air Base fuel laboratory from each newly filled tank at Roveredo (and Montebelluna-Capodimonte, if applicable) when same is ready for issue.
- C.7. A.D. reserves the right to carry out all the checks considered necessary to avoid any potential pollution.

ANNEX D

INVENTORY MANAGEMENT AND REPORTS

D.1. Inventory.

- D.1.1. Except as otherwise provided in this Agreement, the A.D. shall be responsible for DESC product while in its possession, following the signing of the DD Form 250-1 signifying receipt for the fuels from the tanker ship or from the commercial suppliers at Fiorenzuola. ARMAEREO shall be relieved of all responsibility for the DESC product when DESC representatives at the Aviano Air Base sign for product delivered via pipeline or when tank trucks are filled for U.S. forces.
 - D.1.2. AEROPOL shall maintain adequate inventory records of DESC property in accordance with Italian regulations, appropriate STANAGs, as directed by this Agreement, or as mutually agreed to in writing between ARMAEREO and DESC-EU-ME.
 - D.1.3. A.D. shall provide DESC with the end-of-the-month book inventories of DESC product received, stored, and issued. For the September end-of-month inventory, A.D. shall endeavor to provide the inventory report within two (2) days after September 30.
 - D.1.4. AEROPOL shall conduct a semiannual physical inventory in which DESC personnel may participate. Measurements shall be taken using a standardized system of certified measurement. Inventory measurements shall be calculated in accordance with the American Petroleum Institute (API) Manual of Petroleum Measurement Standards.
 - D.1.5. For the purposes of this Agreement, all inventory records shall be maintained in liters.
- #### D.2. Gains and Losses. There are two categories of product losses.
- D.2.1. Normal, due to evaporation and handling.
 - D.2.2. Unusual, due to pipeline breaks, tank leaks, acts of nature, or negligence.
- #### D. 3. Excessive gains and losses.
- D.3.1. Storage and Handling. After the semiannual physical inventory, storage and handling gains/losses exceeding 0.25% must be reported and investigated immediately. The storage and handling gain/loss percentage is calculated by dividing the quantity gained/lost for the previous period (variance between book inventory and physical) by the sum of the beginning inventory, receipts, and any surpluses attributable to product recovery.
 - D.3.2. Receipts at U.S. facilities. Differences between shipped and received quantity measurements that exceed 0.25% based on net cubic meters rounded to the thousandth

(.000) at 15 degrees Celsius and converted to barrels at 60 degrees Fahrenheit shall be immediately investigated jointly by the Parties to determine the cause.

- D. 3.3. If gains/losses exceed the allowable limits, an investigation shall be initiated and a detailed report shall be forwarded to DESC-EU-ME within ten days after the end of the investigation. A new physical inventory may be required to complete the investigation.
- D. 3.4. The Parties agree to share excessive gains/losses proportionally based on the semiannual joint physical inventory.
- D. 3.5. ARMAEREO shall reimburse the DESC for all losses covered by insurance.
- D. 4. Replacement-in-kind product: DESC shall not be charged any transportation fees for replaced-in-kind (RIK) product.

ANNEX E

FINANCIAL AND SERVICE COST MATTERS

E.1. A.D. shall provide DESC with services identified in this Agreement in accordance with the principle of economic neutrality (no loss, no profit).

E.2. The expenditures associated with the services provided under this Agreement are as follows:

E.2.1. Operation and the management of the NIPS system. This item includes the costs sustained by A.D. to ensure the correct operation of the NIPS system, both directly (cost of the staff, infrastructure and services, annual maintenance projects approved within the A.D. budget, etc.) and through outsourcing to outside companies (under a contract for routine operation and maintenance). This item includes expenses for storage and transporting petroleum products by pipeline, ordinary and extraordinary maintenance, and urgent or emergency interventions. DGAA shall charge DESC for its share without seeking to make a profit.

E.2.2. Overhead. The DGAA will invoice DESC its proportional fair share of all overhead costs associated with services provided to DESC.

E.3. All costs indicated in E.2.1. will be attributed to the storage for a 50% amount, and to the transports for the remaining 50%. They will be attributed to the partners depending from respective quote of allowed storage and cost for product transport on the pipeline.

E.3.1. Storage quote. The DESC quote of allowed storage costs is 32.3% (as shown in Annex A).

E.3.2. Transportation quote. The DESC shall pay a proportional share of "transportation cost" based on throughput. Estimated transportation charges shall be calculated quarterly. The formula used to calculate the quarterly cost of transportation is cubic meter of product transported multiplied by the distance (in kilometres) for each pipeline transaction on the NIPS. At the end of the year, the figures are totalled, by percentage, for each user and a comparative analysis is performed to determine each user's actual annual transportation charge.

E.4. Annual Funding Order (FO). ARMAEREO shall provide the DESC with an annual funding requirement (funding order) for the upcoming calendar year budget cycle during the Program Management Review (PMR) no later than November 1st. During the PMR, a reasonable explanation of FO requirement shall be provided in accordance with subparagraph 3.2.5. of this agreement. The DESC shall confirm no later than December 31st that resources are available to pay for services rendered. DESC shall maintain a

sufficient deposit of fuel in the NIPS for all DESC operational costs invoiced by the Italian MOD as they occur during the period referenced in Paragraph 6.7. of this Agreement.

E.5. Invoices. The DGAA shall bill DESC for the service described in this Agreement in accordance with the principle of economic neutrality (no loss, no profit).

E.6. Payments. The DESC shall pay ARMAEREO in cash and/or by providing an equivalent quantity of fuel into the NIPS in order to satisfy the DESC share of service costs (as provided in Annex F and in subparagraph 3.1.5. of this Agreement).

ANNEX F

PAYMENT IN FUEL

- F.1. DESC shall pay ARMAEREO for the cost of NIPS services in aviation fuel (NATO Product Code F35) in the NIPS unless otherwise agreed.
- F.2. Following formal communication of the Italian Air Force to ARMAEREO, replacement-in-kind (RIK) of fuel can be made through the NIPS.
- F.3. With respect to payments for NIPS services in the form of fuel, DESC will communicate during the PMR the estimated weighted average cost of product, inclusive of DESC's annual service fee, that will be used to convert service costs into an equivalent amount of fuel.
- F.4. When payment for services is to be made by an equal value of fuel, the total amount of Euros for the cost of NIPS services provided to DESC shall be converted to U.S. dollars using the average USD/Euro Interbank exchange rate, published at www.oanda.com, for the period of the quarterly invoices. This total U.S. dollar cost shall then be converted to a U.S. gallon equivalent quantity of aviation fuel (NATO Product Code 35) to be paid to the ARMAEREO based on the following method:
- F.4.1. DESC will provide its weighted average cost of product delivered to the NIPS over the previous 12-month period (January through December) in which services were provided. Transportation charges will not be factored in for deliveries from a refinery connected to the NIPS. However, transportation charges and related costs will be factored into the fuel-for-service quantity to be paid if product is delivered into the NIPS via ocean tanker into the port of La Spezia. Once the weighted average price is developed, then DESC's annual service fee shall be added to the price to determine the fuel-for-service repayment quantity.
- F.4.2. The quantity of aviation fuel provided by DESC to pay for NIPS services shall be exempt from transportation costs, storage costs, accessorial fees, or surcharges.
- F.5. Payment by DESC for services received shall be executed upon receipt of a relevant valid invoice issued by ARMAEREO. DESC will not be charged for transportation costs within the NIPS related to fuel stored as advanced payment deposit.
- F.6. ARMAEREO shall not charge DESC for exceeding the approved DESC storage allocation in the NIPS when inventory build-up is required to satisfy the fuel-for-service repayment option according to the arrangements mutually agreed upon by the parties.
- F.7. All transactions pertaining to payment in aviation fuel for services shall be documented and signed by both Parties.